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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

Ex parte THOMAS E. FAUST JR.

Appeal 2016-007075
Application 13/538,150[1]
Technology Center 3600

Before HUNG H. BUI, NABEEL U. KHAN, and KARA L. SZPONDOWSKI *Administrative Patent Judges*.

KHAN, *Administrative Patent Judge*.

DECISION ON APPEAL

Appellant appeals under 35 U.S.C. § 134(a) from the Final Rejection of claims 1–36. We have jurisdiction under 35 U.S.C. § 6(b).

We affirm.

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[1] Appellant identifies Eaton Vance Management as the real party in interest. App. Br. 1.

BACKGROUND

THE INVENTION

According to Appellant, "[t]his invention relates to asset management and administration, and more particularly to an automated system and method for efficiently combining mutual fund and exchange-traded fund (ETF) assets into a single portfolio." Spec. 1:18–20.

Exemplary independent claim 1 is reproduced below.

> 1. A computer-implemented method for combining the management and administration of mutual fund and Exchange-Traded Fund assets using a master-feeder arrangement, the method comprising:
>
> (a) associating a mutual fund module implemented with a computer, with a feeder mutual fund that issues and redeems mutual fund shares with mutual fund investors primarily for cash;
>
> (b) associating an Exchange Traded Fund (ETF) module implemented with a computer, with a feeder ETF that issues and redeems ETF shares with Authorized Participants through one or more of in kind transfers of first securities and cash;
>
> (c) associating a master portfolio module implemented with a computer, with a master portfolio of investments that issues and redeems interests in the master portfolio in one or more of in-kind and cash transactions with the mutual fund and the ETF;
>
> (d) communicably coupling the master portfolio module implemented with a computer, in a master-feeder arrangement with the mutual fund module and the ETF module;
>
> (e) directing, with the master portfolio module, the mutual fund module to apply cash invested by the mutual fund investors to purchase second securities in accordance with an asset configuration communicated by the master portfolio module;
>
> (f) directing, with the master portfolio module, the ETF module to conform the composition of the first securities and

cash received in the in-kind transfers of first securities and cash, with said asset configuration; and

(g) directing, with the master portfolio module, the mutual fund module and the ETF module to effect increases in interests in the master portfolio by contributing said asset configuration to effect purchases, wherein cash purchases and sales to accommodate feeder fund inflows occur outside of the master portfolio;

wherein both the feeder mutual fund and the feeder ETF hold indirect interests in the first securities and second securities of the master portfolio, as well as transitory direct investments in the first securities and second securities in connection with shareholder purchases and redemptions.

REJECTION

Claims 1–36 stand rejected under 35 U.S.C. § 101 as directed to a judicial exception to statutory subject matter. Final Act. 4–5.

DISCUSSION

A patent may be obtained for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101. The Supreme Court has held that this provision contains an important implicit exception for certain patent ineligible concepts: laws of nature, natural phenomena, and abstract ideas. *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354 (2014); *see also Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293 (2012). To determine patentable subject matter, the Supreme Court has set forth a two part test: (1) whether the claims are directed to a patent-ineligible concept and, if so, (2) whether, when the claim elements are considered "individually and 'as an ordered combination,'" there is an

inventive concept present, *i.e.*, an element or combination of elements that is "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself." *Alice*, 134 S. Ct. at 2355 (brackets in original) (quoting *Mayo*, 132 S. Ct. at 1294).

STEP ONE OF ALICE/MAYO TEST

Under the first step of the *Alice/Mayo* two-part test, the Examiner finds

> [C]laims 1–36 are directed to administrating mutual fund and exchange-traded fund assets using a master-feeder arrangement, which is an abstract idea. It is similar to the abstract idea examples identified by the courts of comparing new and stored information and using rules to identify options (buying and selling shares based on asset configurations), mitigating settlement risk and hedging in that they are fundamental economic practices and the buying and selling of shares of financial instruments according to a portfolio direction is also a fundamental economic practice.

Final Act. 4.

Appellant argues "the Office has failed to show that the asserted 'abstract idea' is in fact a fundamental principle/truth, building block of human ingenuity, and basic tool of scientific and technological work" (App. Br. 11) or a fundamental economic practice (App. Br. 12). Appellant further argues the claims do not "preempt all forms of **administrating mutual fund and exchange-traded fund assets using a master-feeder arrangement**." App. Br. 10, 12.

We are unpersuaded by Appellant's arguments. Claim 1 is directed to a "method for combining the management and administration of mutual fund and Exchange-Traded Fund assets using a master-feeder arrangement." App. Br. 21 (Claims Appx.). The steps of the claim require associating

software modules with a feeder mutual fund, a feeder ETF, and a master portfolio, coupling the master portfolio module with the mutual fund module and the ETF module, directing the mutual fund module and ETF module to purchase or conform securities in accordance with an asset configuration, directing the mutual fund module and ETF module to effect increases in interests in the master portfolio where purchases occur outside the master portfolio. In other words, the claim is directed to a particular type of investment product structured in a master-feeder arrangement with a feeder mutual fund and a feeder ETF fund that invest into a master portfolio fund. The Specification explains that such an arrangement leads to operating efficiencies and economies of scale. Spec. 6:7–11.

We agree with the Examiner that such a claim is directed to an abstract idea. In particular, the claims here are similar to those in *Fort Properties v. American Master Lease*, 671 F.3d 1317, 1322 (Fed. Cir 2012), which involved "aggregating real property into a real estate portfolio, dividing the interests in the portfolio into a number of deedshares, and subjecting those shares to a master agreement." The aggregated investment arrangement involving a master agreement and deedshares allowed for flexibility to deedshare holders and certain tax benefits. *Fort Properties*, 671 F.3d at 1319. The Federal Circuit held that such claims are directed to "a real estate investment tool designed to enable tax-free exchanges of property . . . [and are] an abstract concept." *Id.* at 1322. The claims here, just as in *Fort Properties*, are directed to a financial product arranged to aggregate investments into a master portfolio for the sake of efficiencies and tax benefits. *See* Spec. 6:13–20.

Accordingly, we are unpersuaded of error in the Examiner's finding that the claims are directed to an abstract idea.

STEP TWO OF ALICE/MAYO TEST

Turning to the second step of the two-part *Alice/Mayo* test, the Examiner finds:

> The claims do not include additional elements that are sufficient to amount to significantly more than the judicial exception because the additional elements such as the mutual fund, ETF, and master portfolio modules are implemented with a computer, which is the equivalent of apply it to a computer environment. Additionally, directing computer modules to complete purchases or sales as a result of a logic function is a generic computer function that is well-understood, routine, and conventional activity previously known to the computer trading industry.

Final Act. 4.

Appellant argues the claims include additional elements or functions that are significantly more than the abstract idea of administering a mutual fund and exchange traded fund assets using a master-feeder arrangement. App. Br. 14, 16. According to Appellant

> [T]hese additional "elements and functions" include: "a master portfolio . . . that issues and redeems interests . . . in . . . in-kind . . . transactions with the mutual fund and the ETF" feeders; in which the feeders apply cash inflows "to purchase . . . securities in accordance with the [master's] asset configuration"; so that "cash purchases and sales ... occur outside of the master portfolio".

App. Br. 16.

Appellant additionally argues "*The claims include 'significantly more' than the abstract idea by virtue of the lack of applicable Section 102 and 103 art.*" App. Br. 16. Further, Appellant once again contends the claims

do not preempt all forms of the alleged abstract idea and therefore contain significantly more than the abstract idea.

These arguments are unpersuasive. Rather than show that the claims include significantly more than the abstract idea of administering mutual fund and exchange traded fund assets structured in a master-feeder arrangement, the "additional elements or functions" quoted above are related directly to describing the financial product and its master-feeder arrangement.

As to Appellant's argument that the lack of a prior art rejection indicates the claims include significantly more, we disagree. First we do not agree that a lack of a prior art rejection necessarily means a lack of prior art. Second, even if Appellant's claimed invention is distinguished from the prior art, a novel and nonobvious claim directed to a purely abstract idea is, nonetheless, patent-ineligible. *See Mayo*, 132 S. Ct. at 1304. Indeed, "Groundbreaking, innovative, or even brilliant discovery does not by itself satisfy the § 101 inquiry" (*Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2117 (2013)).

Appellant's argument the claims include significantly more because they do not preempt all forms of the alleged abstract idea is also unpersuasive. "While preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility." *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015). Moreover, "[w]here a patent's claims are deemed only to disclose patent ineligible subject matter under the *Mayo* framework, as they are in this case, preemption concerns are fully addressed and made moot." *Id.*

Accordingly, we are not persuaded of Examiner error under step 2 of the *Alice/Mayo* test.

CONCLUSION

For the aforementioned reasons, we sustain the Examiner's rejection of claims 1–36 as directed to a patent-ineligible abstract idea.

DECISION

The Examiner's rejection of claims 1–36 is affirmed.

No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a). *See* 37 C.F.R. § 41.50(f).

AFFIRMED